

<p align="center">2007-2008 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS

Airport Capital Funds

The Airport Capital Funds finance the Airport's capital expenditures and consist of the Airport Capital Improvement Fund, the Airport Renewal and Replacement Fund, the Airport Passenger Facility Charge Fund, and the Airport Revenue Bond Improvement Fund.

Airport Capital Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 633,947	\$ 677,591	\$ 43,644	6.9%
<i>Expenditure</i>	1,090,975	824,385	266,590	24.4%
<i>Fund Balance (est.)</i>	370,609 *	432,581	61,972	16.7%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance of \$43.6 million reflects both project financing and the higher than anticipated interest income on investments. Commercial paper proceeds of \$41.6 million reflect funds drawn to finance projects budgeted in the Airport Revenue Bond Improvement Fund. Unbudgeted interest income of \$19.6 million in the Airport Revenue Bond Improvement Fund reflects earnings on proceeds from the sale of airport revenue bonds in 2007-2008. As an offset, the Airport also had budgeted \$13.0 million in bond proceeds for the FMC Site Reuse Preparation project and only \$164,000 was received.

Grant revenues of \$12.8 million came in below the budget of \$17.7 million. Grant revenues are received on a reimbursement basis and therefore, the shortfall of \$4.9 million was due to lower than budgeted actual expenditures on grant-supported projects during 2007-2008. Projects which were not fully expended at year-end include Noise Attenuation Treatment and Noise Monitoring System upgrades, Runway Guard Light Replacement and the Compressed Natural Gas (CNG) Station Upgrade. These projects are anticipated to be completed in 2008-2009 and grant revenue will be received at that time. The upgrade of the Airport Rescue and Firefighting Facility was deferred until grant funding can be secured.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

The expenditure variance was due to lower than budgeted project expenditures (\$266.6 million). The following is a list of the major unexpended projects (\$000's):

Terminal Area Improvement, Phase I	\$ 131,268
Consolidated Rental Car Facility	35,338
North Concourse Building	26,773
Terminal Area Improvement, Phase II	21,339
FMC Site Reuse Preparation	12,616
ARFF Facility Upgrade	9,786
Noise Attenuation - Category IB	9,316
Public Parking Garage	2,219
Taxiway Y Reconstruction	1,964
Taxiway W, Phase I/II (<i>formerly West Side Airfield Reconstruction project</i>)	1,952
Belly Freight Facility	1,404
Public Art	1,312
Warehouse Building Maintenance	1,093
Principal and Interest Payments	1,058
AVI System Replacement	788
Noise Monitoring Units	742
Clean-up Existing Fuel Farm	741
Compressed Natural Gas Fueling Station Upgrades	701
Computerized Maintenance Management System	664
Central Plant Expansion	<u>561</u>
Total	\$ 261,635

The following is an explanation of major project variances:

- The Terminal Area Improvement, Phase I project variance (\$131.3 million) results primarily from timing of the establishment of the program's budget. A large portion of the funding for this program was budgeted in its first year based on a design-bid-build project delivery method. Subsequently, the Airport is using a design-build delivery method under a task order-based contract. A large portion of the project's savings were rebudgeted as part of the 2008-2009 Adopted Budget. The remainder is recommended for rebudget as part of this report to continue this project's efforts in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The Consolidated Rental Car Facility project variance (\$35.3 million) reflects a change in the design concept resulting in an expanded Rental Car Facility. Remaining funds have been rebudgeted as part of the 2008-2009 Adopted Budget in order to complete the project.
- The North Concourse Building project variance (\$26.8 million) reflects the timing of the establishment of the project's budget. Since funding for this project was programmed entirely in the first year, funds have continued to be rebudgeted until the project's completion estimated in October 2008.
- The Terminal Area Improvement, Phase II project variance (\$21.3 million) reflects the necessity to complete only the 0-30% design phase during 2007-2008. As part of this report, the Airport recommends the transfer of savings in the initial design phase to the Terminal Area Improvement Phase I project consistent with the design-build strategy to deliver all projects within the overall budget. Remaining funds have been rebudgeted as part of the 2008-2009 Adopted Budget to complete the remaining 31-100% design work.
- The FMC Site Reuse Preparation project reflects a variance of \$12.6 million. During 2007-2008, the City refinanced the bonds used to fund this appropriation and the scope of the project was reduced. Adjustments are recommended in this report to reduce the project budget to reflect this refinancing.
- The Airport Rescue and Fire Fighting (ARFF) Facility Upgrade project was contingent upon receipt of grant funding. Grant funding was not available to complete the scope of this project; therefore, the variance (\$9.8 million) was not rebudgeted in 2008-2009.
- The Noise Attenuation – Category IB project variance (\$9.3 million). The majority of the project's balance was rebudgeted as part of the 2008-2009 Adopted Budget reflecting the ongoing nature of this project. The remainder of funds are recommended for rebudget as part of this report to continue efforts related to the final clean-up bid which will be awarded in 2008-2009. This phase of the project provides noise attenuation improvement in the Guadalupe/Washington and Market/Almaden neighborhoods and the City of Santa Clara.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The Public Parking Garage project variance (\$2.2 million) reflects a change in the design concept for public parking resulting in an expanded Rental Car Facility which includes 350 ground level public parking spaces. Funding has been rebudgeted to continue these efforts in 2008-2009.
- The Taxiway Y Reconstruction project was substantially completed in 2006-2007 with closeout activities concluded in 2007-2008. Remaining project savings (\$2.0 million) will fall to fund balance.
- The West Side Airfield Reconstruction project variance (\$2.0 million) reflects reevaluation of project alternatives by staff in 2007-2008, resulting in a newly rescope project entitled Taxiway W, Phase I/II included in the 2008-2009 Adopted Budget process. The majority of the project's balance was rebudgeted as part of the 2008-2009 Adopted Budget. The remaining balance is recommended for rebudget as part of this report to continue funding the phase I project design.
- The Belly-Freight Facility variance (\$1.4 million) reflects deferral of this project pending the availability and timing of funding. Current resources have been rebudgeted in 2008-2009.
- The variance in Public Art (\$1.3 million) reflects schedule alignment of public art design with the Terminal Area Improvement Program and North Concourse Building public art commissioning schedules. All funds will be rebudgeted to continue public art program efforts.
- The Warehouse Building Maintenance variance (\$1.1 million) reflects staff reassessment of project alternatives and funding for the renovation or replacement of maintenance buildings on the southeast corner of the Airport. Current resources have been rebudgeted in 2008-2009 to continue these efforts.
- The Principal and Interest Payments variance (\$1.1 million) reflects savings due to both lower than anticipated use of commercial paper and favorable interest rates obtained in 2007-2008.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The AVI System Replacement project variance (\$788,000) reflects a delay in the procurement process. An award of contract was approved by Council in April 2008; however, the contract was not encumbered until July 2008. All funds have been rebudgeted as part of the 2008-2009 Adopted Budget.
- The variance in the Noise Monitoring Units project (\$742,000) reflects program savings. The remaining balance was redirected to the Noise Attenuation Treatment – Category IB appropriation in the 2008-2009 Adopted Budget in order to maximize the use of grant funding.
- The Clean-up Existing Fuel Farm project will begin once the new fuel farm is operational in 2009. The balance of funds (\$741,000) has been rebudgeted as part of the 2008-2009 Adopted Budget for this ongoing project.
- The Compressed Natural Gas (CNG) Fueling Station Upgrades variance (\$701,000) reflects delays experienced in the bid process. The original bid was rejected and the Airport is in the process of requesting a new RFP with some scope adjustments. The balance of funds has been rebudgeted as part of the 2008-2009 Adopted Budget in order to continue these efforts.
- The Computerized Maintenance Management System variance (\$664,000) reflects funding for phase II of this project. Phase I was completed during 2007-2008 and phase II savings were rebudgeted as part of the 2008-2009 Adopted Budget and will be encumbered early in 2008-2009 with a “go-live” date slated for October 2008.
- The Central Plant Expansion project variance (\$561,000) reflects the timing of the establishment of the project’s budget. Funding for this project was entirely programmed in the first year, therefore, funding was continually rebudgeted until the project’s completion, which coincides with the North Concourse Building, and has an estimated completion date in October 2008.

The remaining \$5.0 million variance involves a number of projects with less than \$500,000 in unexpended funds. The majority of the unexpended funds, excluding those that are savings, have been or will be recommended for rebudget for expenditure in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

The positive ending fund balance variance of \$62.0 million is largely due to \$41.6 million in commercial paper proceeds which is recorded as revenue in the Airport Revenue Bond Improvement Fund. In addition, the Airport expanded its commercial paper program which resulted in a net increase of \$10.4 million in the ending fund balance. The Airport Department did experience project expenditure savings and portions of these savings are being recommended for rebudget to provide sufficient funding for projects in 2008-2009. The balance of the expenditure savings will remain unallocated as the Airport continues to review its capital project priorities.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund

In November 2000, San José voters approved a \$212 million Library bond to improve the branch library system over a ten-year period. The funds designated in the Library Bond program will support the renovation or replacement of 14 existing branches, and the construction of six additional branches in unserved neighborhoods.

***Branch Library
Bond Projects
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 18,547	\$ 9,584	\$ (8,963)	(48.3%)
<i>Expenditure</i>	75,462	48,549	26,913	35.7%
<i>Fund Balance (est.)</i>	45,575 *	47,333	1,758	3.9%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

General Obligation Bond Proceeds (G.O. Bonds), interest earnings, and a transfer from the Library Construction and Conveyance Tax Fund provided the revenue for this fund in 2007-2008. The negative revenue variance of \$9.0 million is the result of lower than anticipated bond proceeds (\$5.9 million) and the Bascom Avenue site not being sold (\$3.6 million), partially offset by higher than anticipated interest earnings (\$577,000) on bond proceeds. The 2007-2008 bond issuance was lower than originally budgeted due to changes in the timing of program needs which required a lower funding level. The revised bond schedule was anticipated in the development of the 2008-2009 Adopted Capital Budget. It had also been anticipated that the land for the original Bascom Branch site would be sold in 2007-2008, but due to the slowdown in the local real estate market, the land sale is not anticipated to occur until 2009-2010.

The positive expenditure variance of \$26.9 million reflects unexpended project funds. Projects with significant variances include the following:

- The Bascom Branch project had an expenditure variance of \$13.4 million due to a delay in awarding the construction contract because of protests to the lowest bidder. Originally scheduled for award in June 2008, the actual construction award did not occur until August 2008.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund (Cont'd.)

- The Seven Trees Branch project had an expenditure variance of \$4.9 million due to unused project contingency and because the actual construction award was significantly lower than the amount budgeted. As construction has just begun, project savings are not being realized at this time to allow funding for potential unforeseen conditions. However, when the project is completed any savings will be reallocated to other existing projects as needed or placed in the contingency reserve.
- The Santa Teresa Branch project had an expenditure variance of \$2.9 million due to unused project contingency and because the actual construction award was significantly lower than the amount anticipated. As construction has just begun, project savings are not being realized at this time to allow funding for potential unforeseen conditions. However, when the project is completed any savings will be reallocated to other existing projects as needed or placed in the contingency reserve.
- The Land Acquisition allocation had an expenditure variance of \$1.1 million due to land not yet being purchased for the Southeast Branch (the only remaining branch with a site not yet determined).
- The Pearl Avenue Branch project had an expenditure variance of \$1.1 million due to lower than estimated project management costs and unused project contingency.
- The Southeast Branch project had an expenditure variance of \$892,000 due to a delay in awarding the design agreement as a site for the new branch has not yet been determined.
- The East San José Carnegie Branch project had an expenditure variance of \$659,000 due to unused project contingency.
- The Edenvale Branch project had an expenditure variance of \$641,000 due to lower than estimated project management costs and unused project contingency.

The majority of savings for projects in this fund have been or will be rebudgeted to 2008-2009 to ensure adequate funding to complete these projects. Most of these savings were anticipated and rebudgeted to 2008-2009 in the Adopted Capital Budget (\$29.8 million), with the remaining balance recommended for rebudget and the over-expended amounts to be reduced as part of this document (\$538,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund (Cont'd.)

The 2007-2008 ending fund balance is \$1.8 million higher than the estimate used in the development of the 2008-2009 Adopted Capital Budget primarily due to higher than anticipated revenues (\$954,000) and lower than anticipated project expenditures (\$803,000). As previously mentioned, this document includes recommendations to rebudget a majority of the expenditure savings to provide sufficient funding for projects in 2008-2009. The remaining fund balance will be preserved in the Branch Libraries Bond Projects Contingency Reserve for future project needs.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund

The Building and Structure Construction Tax is a tax on residential, commercial and industrial development. The use of these funds, along with grant revenue, is restricted to traffic capital improvements on major arterials and collectors, including bridges, culverts, lighting, and traffic control systems that increase traffic volume.

***Building & Structure
Construction Tax
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 23,302	\$ 15,894	\$ (7,408)	(31.8%)
<i>Expenditure</i>	47,985	25,839	22,146	46.2%
<i>Fund Balance (est.)</i>	12,701 *	18,236	5,535	43.6%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Total revenues of \$15.9 million include receipts from the Building and Structure Construction Tax, grants from the federal government for various Intelligent Transportation Systems (ITS) and seismic bridge retrofit projects, funding from the State government for a light rail transit extension project, miscellaneous revenue, and interest earnings.

The negative revenue variance (\$7.4 million) was primarily due to lower than budgeted receipts from federal grants (\$7.0 million), Building and Structure Construction Tax (\$566,000) collections, State grants (\$446,000), developer contributions (\$280,000), and funding from other agencies (\$185,000). The lower than budgeted revenues were offset by higher receipts of interest earnings (\$620,000) and miscellaneous revenue (\$425,000). At \$9.6 million, Building and Structure Construction Tax receipts in 2007-2008 were 9.4% (\$1.0 million) lower than 2006-2007 collections (\$10.6 million).

Postponements in certain projects contributed to delays in reimbursements from other agencies. The largest of these were delays in the Intelligent Transportation Systems (ITS) projects, which impacted reimbursements by federal grants. The reimbursement for the ITS: Stevens Creek – West project was \$506,000 below the budgeted estimate due to project delays as a result of higher than anticipated bids. As a result, the project was rescoped and went out for rebid in 2007-2008. Since the ITS: Enhancements project is directly impacted by the ITS: Stevens Creek – West project (the same staffing resources are issued to both projects), the reimbursement

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

for the ITS: Enhancements project was also below the budgeted estimate by \$89,000. Also, the reimbursement for the ITS: Transportation Incident Management Center project was \$191,000 below the budgeted estimate due to delays in the Request for Quotation (RFQ) process which resulted in two planned projects not being able to proceed. In addition, the reimbursement for the seismic bridge retrofit projects for Julian Street, Southwest Expressway, and William Street were \$160,000 below the budgeted estimate due to delays in receiving bids from contractors. The majority of the delays were anticipated, and the revenue for six projects is recommended for rebudget in this report (\$946,000). The reimbursement from the State (\$43,000) for the upgrade of traffic signal controllers to enhance signal timing along the light rail transit corridor on Capitol Expressway is recommended for rebudget as part of this report due to the timing of receipt of the revenue.

Unexpended project funds resulted in a \$22.1 million positive variance in budgeted program expenditures. Almost all of these funds have been rebudgeted into 2008-2009 or will be recommended for rebudget with this document to ensure sufficient funding for projects in the current year. The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure variances (\$000's):

ITS: Transportation Incident Management Center	\$	3,165
Branham Lane Improvements		2,756
SJSU to Japantown Pedestrian Corridor		2,610
ITS: Enhancements		2,062
Route 101: Blossom Hill Interchange Improvements		1,750
Traffic Signals		1,463
Traffic Signals – Rehabilitation		1,392
Hamilton Ave – Meridian Avenue to Hamilton Way		661
Curtner Avenue Widening		640
Traffic Signal – Hostetter Road and Piedmont Road		550
Seismic Bridge Retrofit – Southwest Expressway		509
ITS: Stevens Creek – West		500
Total	\$	18,058

Following are descriptions of the projects' variances:

- The ITS: Transportation Incident Management Center (TiMC) project generated savings due to delays in the Request for Quotation (RFQ) process which resulted in two planned projects not being able to proceed.
- The Branham Lane Improvements project generated savings as a result of the reallocation of funds to a reserve for Branham Lane Improvements.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

- The SJSU to Japantown Pedestrian Corridor project provides for pedestrian improvements connecting San José State University, City Hall, and Japantown through the Hensley Historic District. The design for this project is taking longer than anticipated and is still underway. Once the design is finished, the award of the construction contract will occur. A portion of the unexpended funds was rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget, and the remainder is recommended for rebudget as part of this report for the award of the construction contract.
- The ITS: Enhancements project was delayed due to staffing resources that were affected by the delay in the ITS: Stevens Creek – West project.
- The Route 101: Blossom Hill Interchange Improvements project generated savings due to funds being shifted into a reserve for planned improvements to the Route 101 and Blossom Hill interchange.
- The Traffic Signals project funds several signal projects each year. A number of the signals originally programmed for award were not awarded during 2007-2008, and this money is recommended for rebudget into 2008-2009 as part of this report to support completion of the signals. The award delays were due to scope changes and the receipt of bids that required further evaluation.
- The Traffic Signals – Rehabilitation program provides for proactive rehabilitation of traffic signal equipment to ensure the existing traffic signal system meets current safety standards and miscellaneous rehabilitative improvements. This project generated savings of approximately \$1.4 million, for which a majority of these savings (\$1.2 million) were redirected to the Traffic Signal Communications and Synchronization project to fund the local match of the project. The remainder of the savings (\$192,000) is recommended for rebudget into 2008-2009 as part of this report to support the completion of construction of two traffic signals.
- The Hamilton Avenue – Meridian Avenue to Hamilton Way project was delayed due to the scope changes required to modify the traffic signal at the intersection of Hamilton and Meridian Avenues. In addition, roadway grades were redesigned to conform to the adjacent properties.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

- The Curtner Avenue Widening project provides funding to developers upon the completion of the public improvements on Curtner Avenue. Since the private developers experienced delays in their schedule, this project has been delayed. The unexpended funds were rebudgeted as part of the 2008-2009 Adopted Capital Budget.
- The Traffic Signal – Hostetter Road and Piedmont Road project will construct a new traffic signal at the intersection of Hostetter Road and Piedmont Road due to the recent completion of the Hostetter Road extension. The unexpended funds were rebudgeted as part of the 2008-2009 Adopted Capital Budget for the design and construction of the project.
- The Seismic Bridge Retrofit – Southwest Expressway project generated savings due to delays in receiving the authorization to proceed from Caltrans. The unexpended funds were rebudgeted as part of the 2008-2009 Adopted Capital Budget for the award of the construction contract.
- The ITS: Stevens Creek – West project generated savings due to delays in the award of the construction contract, primarily resulting from the need to rescope and rebid the project due to high bids that were received from contractors. The unexpended funds were rebudgeted as part of the 2008-2009 Adopted Capital Budget for the award of the construction contract.

The remaining variance (\$4.1 million) reflects unexpended funds in a number of projects with balances of less than \$350,000.

The 2007-2008 ending fund balance variance of \$5.5 million is the result of lower than estimated revenues (\$704,000) combined with lower than estimated expenditures (\$6.2 million). Most of these expenditure savings are recommended for rebudget as part of this report to provide sufficient funding for projects in the current fiscal year.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Construction Fund

The Civic Center Construction Fund accounts for the expenditure of bond proceeds for the new Civic Center project.

***Civic Center
Construction Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 100	\$ 572	\$ 472	N/A
<i>Expenditure</i>	6,217	2,452	3,765	60.6%
<i>Fund Balance (est.)</i>	4,549 *	5,111	562	12.4%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

In 2007-2008, revenues exceeded budgeted levels due to higher than budgeted interest earnings (\$472,000).

Expenditures ended the year \$3.8 million below the budgeted level. The majority of the variance was in the Police Administration Voice and Data Network Enhancements (\$1.9 million) and the City Hall Network Operations Center Secondary Cooling System (\$1.1 million) projects with smaller variances in the City Hall Capital Enhancements (\$304,000) and Construction (\$292,000) appropriations. The lower expenditure level was anticipated at the end of the 2007-2008 and \$3.5 million were approved for rebudget in the 2008-2009 Adopted Capital Budget. Two projects did not meet sufficient year-end savings to cover the original rebudget amount assumed in the 2008-2009 Adopted Capital Budget. As a result, a budget reduction is recommended for the Watson Park Site Clean-up and Restoration (\$243,000) and Police Administration Voice and Data Network Enhancements (\$13,000) projects. In addition, a rebudget of savings for two allocations are recommended in this document for Arbitrage Rebate Payments (\$100,000) and the City Hall Network Operations Center Secondary Cooling System (\$13,000).

The 2007-2008 ending fund balance was \$562,000 above the estimate used in the development of the 2008-2009 Adopted Capital Budget due to higher than estimated interest earnings (\$257,000) and lower than estimated expenditures (\$305,000). The expenditure savings are recommended to be transferred to the City Hall Debt Service Fund to reduce future debt service payments related to the Civic Center project.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Improvement Fund

The Civic Center Improvement Fund was established in 2003-2004 to account for the technology, furniture, equipment, and relocation costs associated with the new City Hall.

***Civic Center
Improvement Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 10,890	\$ 665	\$ (10,225)	(93.9%)
<i>Expenditure</i>	10,360	1,945	8,415	81.2%
<i>Fund Balance (est.)</i>	0 *	(1,704)	(1,704)	N/A

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

In 2007-2008, revenues were below the budgeted estimate by \$10.2 million due to lower than budgeted commercial paper proceeds, slightly offset by higher than anticipated interest earnings. A lower amount of commercial paper was issued based on the actual expenditure needs in this fund.

Expenditures were \$8.4 million below the budgeted level primarily due to the timing for the acquisition of technology, furniture, and equipment items. The lower expenditure level was anticipated at the end of 2007-2008 and the funds were rebudgeted in the 2008-2009 Adopted Budget. Rebudget adjustments are recommended in this report to adjust the 2008-2009 appropriation based on actual year-end expenditures.

A negative fund balance of \$1.7 million resulted at the end of 2007-2008 due to the timing of payments. Commercial paper proceeds reimburse actual expenditures rather than accruals or encumbrances. As a result, there is a timing difference between when an accrual or encumbrance is made, when the actual expenditure is paid, and ultimately, when the commercial paper notes are issued to fund the expenditures. A rebudget of commercial paper proceeds (\$1.9 million) and rebudget for the continuation of projects (\$189,000) is recommended in this document. After all reimbursements are received, it is anticipated that the fund balance will no longer be negative.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Parking Fund

The Civic Center Parking Fund accounts for the expenditure of bond proceeds for the new Civic Center off-site parking garage. In 2001-2002, this Fund also accounted for the new Civic Center on-site parking garage.

***Civic Center
Parking Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 0	\$ 1	\$ 1	N/A
<i>Expenditure</i>	935	795	140	15.0%
<i>Fund Balance (est.)</i>	1,605 *	1,745	140	8.7%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

In 2007-2008, revenue was generated from interest earnings (\$1,000).

Expenditure variances related to the New Civic Center Parking Garage totaled \$140,000 resulting from project expenditure savings (\$127,000) and lower than budgeted transfers (\$13,000). As the parking garage is operational, the 2007-2008 expenditure savings are not needed and are recommended to be transferred to the City Hall Debt Service Fund to reduce future debt service payments related to the Civic Center project.

The 2007-2008 ending fund balance was \$140,000 above the estimate used in the development of the 2008-2009 budget due to expenditure savings described above.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds

The Construction Tax is a flat fee assessed on residential, commercial, and industrial development. The Conveyance Tax is imposed at a rate of \$3.30 per \$1,000 of the value of the conveyed property. Revenues collected in the Construction and Conveyance Tax Funds are dedicated to the Parks and Community Facilities Development, Communications, Fire, Library, and Service Yards capital programs.

Construction and Conveyance Tax Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 51,157	\$ 45,225	\$ (5,932)	(11.6%)
<i>Expenditure</i>	119,567	73,275	46,292	38.7%
<i>Fund Balance (est.)</i>	80,039 *	86,637	6,598	8.2%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Construction and Conveyance Tax Fund revenues in 2007-2008 included: Construction and Conveyance tax receipts; transfers between funds; State and federal grants; interest earnings; and miscellaneous revenues.

The elements of the negative \$5.9 million revenue variance were as follows: **(\$000s)**

Interest Earnings and Miscellaneous Revenues	\$ (3,329)
Grants	(2,285)
Construction and Conveyance Tax Revenue	(191)
Transfers of Construction and Conveyance	
Revenue between funds	<u>(127)</u>
Total	\$ (5,932)

Construction and Conveyance Tax revenues, which are almost entirely generated from property transfers, experienced a significant decline in 2007-2008 due to the economic slowdown that has impacted real estate sales, coupled with the effects of the recent subprime lending and financial market credit tightening. Actual collections for 2007-2008 totaled \$26.8 million, a decrease of almost \$15.0 million (36%) from the prior year collection of \$41.8 million. When the 2007-2008 budget was developed, due to the state of the economy, it was assumed that receipts would experience sizeable declines from the estimated 2006-2007 collection level (35%). However,

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

even with the anticipated decline in revenue, collection levels for the year still fell slightly below budgeted levels (negative variance of \$191,000). As part of this document, adjustments are recommended in each Construction and Conveyance Tax fund ending fund balance to offset this reduction in revenue. It should be noted that a further reduction in Construction and Conveyance Tax revenues is anticipated to occur in 2008-2009. The 2008-2009 revenue estimates of \$23 million will allow for a further drop of 14.2%. The City Manager's Budget Office will be monitoring these revenue collections carefully and provide status updates to the City Council in Monthly Financial Reports.

Consistent with the decrease in Construction and Conveyance Tax revenues, property transfers for all types of residences have decreased 38% from the prior year. Real estate market indicators that reflect a struggling market include declines in the number of sales and median home prices and an increase to the days on market. The median home price for single family homes within the City has experienced significant drops in value, with the median home price in June 2008 totaling \$600,000, down 22% from the June 2007 price of \$772,000. The amount of time it takes to sell a home has increased from 44 days in June 2007 to 59 days in June 2008.

The lower than anticipated tax collections also negatively impacted the transfer category because of the methodology used to distribute the tax revenue to individual Construction and Conveyance Tax funds.

The negative interest earnings and miscellaneous revenues variance was due to lower than expected average cash balances. Grant revenue fell below anticipated levels by \$2.3 million as many of the grants are paid on a reimbursement basis and the work on the eligible projects has not yet been completed. In addition, a number of the projects were recently completed, but the reimbursement requests have not yet been finalized. Most of these grant revenues are expected to be received in 2008-2009.

The expenditure variance of \$46.3 million, or 38.7%, is primarily the result of unexpended capital project funds. The majority of these expenditure savings were anticipated and the funds were rebudgeted to 2008-2009 to complete these projects. Additional rebudgets are recommended in this report to provide sufficient funding to complete the projects.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

The following is a list of projects in which unexpended balances exceeded \$300,000:

		<u>(\$000s)</u>
Council District 1:	Calabazas Park Play Lot Renovation	\$ 625
	Strategic Capital Replacement and Maintenance Needs	339
	Starbird Park Irrigation Renovation	338
	Rainbow Park Master Plan	330
Council District 2:	TRAIL: Albertson Parkway	467
	Strategic Capital Replacement and Maintenance Needs	363
Council District 3:	Roosevelt Community Center – Multi-Service	967
	Roosevelt Roller Hockey Rink Cover	660
	Roosevelt Community Center FF&E	485
	Tamien Specific Plan Area Park Improvements	300
Council District 4:	Strategic Capital Replacement and Maintenance Needs	520
Council District 5:	Strategic Capital Replacement and Maintenance Needs	574
	LoBue Park Development	321
Council District 6:	Bascom Community Center – Multi-Service	1,529
	Bramhall Park Play Lot Renovation	584
	TRAIL: Willow Glen Spur Acquisition	510
	Strategic Capital Replacement and Maintenance Needs	507
Council District 7:	Seven Trees Community Center – Multi-Service	1,650
	Vietnamese American Community Center	1,000
	Strategic Capital Replacement and Maintenance Needs	554
	Tully Road Ballfields Parking Lot Improvements	412
Council District 8:	Strategic Capital Replacement and Maintenance Needs	465
	Falls Creek Park Development	383
Council District 9:	Strategic Capital Replacement and Maintenance Needs	479
Council District 10:	Strategic Capital Replacement and Maintenance Needs	490
	Almaden Winery Irrigation Automation	323
Central Fund:	Parks Fixtures, Furnishings and Equipment	822

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

City-Wide:	Kelley Park East Picnic Grounds and Restroom	1,436
	Happy Hollow East Side Improvements	1,200
	TRAIL: Albertson Parkway	1,000
	TRAIL: Willow Glen Spur Acquisition	1,000
	Emma Prusch Park Service Yard	564
	Capital Maintenance Projects	497
	Alum Rock Park New Entrance Restroom	403
Communications:	Communications Equipment Replacement and Upgrade	401
Fire:	FF&E and Facility Improvements	1,183
	Fire Station 2 – Rebuild	964
	Turnout Cleaning	405
	Fire Station 21 – Relocation (White Road)	391
Library:	New Branch Opening Day Collections	5,027
Park Yards:	Emma Prusch Park Service Yard	1,124
Service Yards:	Central Service Yard Phase II	<u>361</u>
Total		\$31,953

Explanations for projects with significant variances are summarized below.

- The Calabazas Park Play Lot Renovation project was delayed due to community meetings requested by the Council District 1 Office to finalize the project scope. As a result, the project start date was delayed until 2008-2009.
- The Strategic Capital Replacement and Maintenance Needs allocations for all Council Districts (with the exception of Council District 3) had a project expenditure variance exceeding \$300,000. Project spending plans were finalized in 2007-2008, however, plans were not executed due to unexpected heavy workloads and a lack of available resources. In 2008-2009, these projects are a high priority and funds are anticipated to be expended.
- The Starbird Park Irrigation Renovation project is on hold due to the Blackford Strong Neighborhoods Initiative (SNI) Neighborhood Action Coalition (NAC) requesting an update to the Starbird Park Master Plan prior to implementing irrigation renovations.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Rainbow Park Master Plan project is no longer proceeding. This project was originally approved as a result of discussions to locate the Calabazas Branch Library at Rainbow Park. In 2007-2008, it was determined to expand the library at its current location adjacent to Calabazas Park, rather than move the library to a new site (renovations are funded by the Branch Libraries Bond Projects Fund). Therefore, a new master plan for Rainbow Park is no longer needed.
- The TRAIL: Albertson Parkway project had an expenditure variance in the Council District 2 Construction and Conveyance Tax Fund and the Parks City-Wide Construction and Conveyance Tax Fund due to the cost of design phase of the project being less than originally anticipated.
- The Roosevelt Community Center – Multi-Service project was re-bid in 2006-2007 since the initial construction bids were significantly higher than the project budget. This resulted in a delay to construction management and inspection needs in 2007-2008.
- The Roosevelt Roller Hockey Rink Cover project had an expenditure variance due to the cost estimates for the project being higher than the available project budget. Funds have been placed in a reserve in 2008-2009, pending further analysis and possible revisions to the project scope.
- The Roosevelt Community Center Fixtures, Furnishings and Equipment (FF&E) project was delayed as a result of the Roosevelt Community Center Multi-Service project delay. All remaining FF&E purchases are anticipated to occur in 2008-2009.
- The Tamien Specific Plan Area Park Improvements project is on hold pending a project location being finalized and all necessary funding being secured.
- The LoBue Park Development project was delayed due to an increase in the project scope being required. The project scope is anticipated to complete in fall 2008, with the design phase of the project beginning shortly thereafter.
- The Bascom Community Center – Multi-Service project had a delay in awarding the construction contract because of protests to the low bidder. Originally scheduled for award in June 2008, the actual award did not occur until August 2008.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Bramhall Park Play Lot Renovation project was delayed due to community meetings requested by the Council District 6 Office to finalize the project scope. As a result, the project start date was delayed until 2008-2009.
- The TRAIL: Willow Glen Spur Acquisition project is on hold pending the City and the Union Pacific Railroad (UPRR) agreeing on an acceptable purchase price for the land. Negotiations are anticipated to continue with UPRR in 2008-2009.
- The Seven Trees Community Center – Multi-Service project had an expenditure variance due to unused project contingency and because the actual construction award was significantly lower than the amount budgeted. As construction has just started, project savings are not being realized at this time to allow funding for potential unforeseen conditions. However, when the project is completed any savings will be reallocated to other projects or placed in the ending fund balance.
- The Vietnamese American Community Center project was delayed to explore the potential of using an existing City facility as an alternative site for the Community Center.
- The Tully Road Ballfields Parking Lot Improvements project was delayed to accommodate the baseball season. It is anticipated the improvements to the parking lot will occur in 2008-2009.
- The Falls Creek Park Development project construction phase was delayed, which resulted in unused construction management and inspection costs funds. These services are anticipated to continue in 2008-2009.
- The Almaden Winery Irrigation Automation project had a delay due to the project scope needing to be re-evaluated. The feasibility phase of the project will begin in 2008-2009.
- The Parks Fixtures, Furnishings and Equipment (FF&E) allocation provides funding to outfit the General Obligation Bond-funded park facilities. All unexpended funds are carried over to the following year to purchase the necessary FF&E for the new and remodeled park facilities as they come on-line. It is anticipated that a large portion of the remaining funds (\$800,000) will be used to purchase FF&E for the newly renovated Happy Hollow Park and Zoo.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Kelley Park East Picnic Grounds and Restroom and Happy Hollow East Side Improvements allocations both provide supplemental funding for the Parks and Recreation Bond Projects funded Happy Hollow Park and Zoo Renovations and Improvements project. This project has experienced delays due to the need to identify additional funding and to re-scope the project resulting from escalating project costs.
- The Emma Prusch Park Service Yard project had expenditure variances in the Parks City-Wide Construction and Conveyance Tax Fund and the Park Yards Construction and Conveyance Tax Fund due to the project being delayed to evaluate alternative sites for the building in response to a request from the Prusch Park Foundation. These funds have been re-allocated to reserves, pending the outcome of the community process which may begin in 2008-2009 and the outcome of a Feasibility Study for another project adjacent to the Service Yard, which will be conducted by the Prusch Park Foundation.
- The Capital Maintenance Projects allocation in the Parks City-Wide Construction and Conveyance Tax Fund was delayed to ensure prioritization of improvements fit within the capital infrastructure replacement priorities.
- The Alum Rock Park New Entrance Restroom project had an expenditure variance due to the cost of the project being lower than originally estimated.
- The Communications Equipment Replacement and Upgrade project had an expenditure variance in 2007-2008 due to staff's inability to purchase all the necessary equipment by the end of the fiscal year. These purchases will be made in 2008-2009.
- The FF&E and Facility Improvements project had unexpended funds at year-end because a number of projects that were to be funded by this allocation were not completed in 2007-2008. The unexpended funds were rebudgeted to 2008-2009 to complete those projects.
- The Fire Station 2 – Rebuild project was re-scoped from a remodel to a full rebuild by the City Council on October 16, 2007. Savings in this project occurred because an amendment to the Redevelopment Plan was required in order to accept San José Redevelopment Agency funding for the project. Construction of the facility did not begin as anticipated in 2007-2008, but is now scheduled to begin in winter 2008.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Turnout Cleaning appropriation savings can be attributed to changes in cleaning methods that were anticipated, but not implemented in 2007-2008. These changes, which will include repair of the inner lining of turnouts (vapor barrier), will be undertaken in 2008-2009.
- The Fire Station 21 – Relocation (White Road) project development is on hold pending acquisition of property for the project. It is now anticipated that the property acquisition will occur in 2008-2009.
- New Branch Opening Day Collections allocations provide funding for new materials at each of the newly constructed branch libraries funded by the Branch Libraries Bond Projects Fund. All unexpended funds are carried over to the following year to purchase the necessary materials for the new libraries as they come on-line.
- The Central Service Yard Phase II project had an expenditure variance in 2007-2008 due to a delay in completing small projects related to Phase II activities. These projects will be completed in 2008-2009.

The 2007-2008 ending fund balance in the combined Construction and Conveyance Tax Funds was \$6.6 million higher than the budgeted estimate primarily due to lower than anticipated expenditures (\$6.8 million), partially offset by lower than anticipated revenues (\$235,000). As previously stated, Construction and Conveyance Tax receipts had a negative variance of \$191,000, which is accounted for in the adjustments recommended to the ending fund balances in each of the individual Construction and Conveyance Tax Funds. In addition, this document includes recommendations to rebudget a majority of the expenditure savings to provide sufficient funding for projects in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund

The Construction Excise Tax, also referred to as the Commercial, Residential, and Mobile Home Park Building Tax, is a tax on construction of residential, commercial, and mobile home developments. This general purpose tax is based on building valuation, with revenues in the fund historically being used primarily for traffic improvements.

Construction Excise

Tax Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 48,229	\$ 32,559	\$ (15,670)	(32.5%)
<i>Expenditure</i>	68,332	45,812	22,520	33.0%
<i>Fund Balance (est.)</i>	16,636 *	9,599	(7,037)	(42.3%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Total revenues of \$32.6 million include receipts from the Construction Excise Tax, federal and State grants, other agencies, developer contributions, interest earnings, and other miscellaneous revenues.

The negative revenue variance (\$15.7 million) is due primarily to delays in federal grant reimbursement for federal Pavement Maintenance (\$10.3 million variance) as a result of the timing of receipt of the revenue. In addition, the reimbursement from the State for the Route 101/Tully Road Interchange Upgrade project (\$4.0 million) was not received because the project was deferred to 2008-2009. The revenue was rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget. At \$13.6 million, Construction Excise Tax receipts in 2007-2008 underperformed budgeted estimates of \$14.8 million, and are 6.5% (\$942,000) below 2006-2007 collections (\$14.5 million). This negative variance is offset slightly by higher than anticipated receipts in other revenue categories which include: interest earnings (\$140,000), miscellaneous revenue (\$48,000), and developer contributions (\$29,000).

Unexpended project funds resulted in a \$22.5 million positive variance in budgeted program expenditures. Almost all of these funds have been rebudgeted into 2008-2009 or will be recommended for rebudget as part of this document to ensure sufficient funding for projects in the current year.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure variances (\$000's):

Prop 1B – Pavement Maintenance	\$	10,670
Prop 1B – Route 101/Tully Interchange Upgrade		4,000
Federal Pavement Maintenance		2,498
TCRP Payback – Pavement Maintenance		564
BART Project Management		553
Traffic Calming		509
Pavement Maintenance		487
Traffic Safety Data Collection		<u>376</u>
Total	\$	19,657

Following are descriptions of the project variances:

- The Prop 1B – Pavement Maintenance project uses State grant funding to perform street sealing and resurfacing of various City streets, thereby improving the overall condition of the City's street network. The unexpended funds have been rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget, and additional savings are being recommended for rebudget as part of this report for the award and construction of pavement projects.
- The Prop 1B – Route 101/Tully Interchange Upgrade project uses State grant funding to reconstruct the Route 101/Tully interchange to improve traffic flow. The unexpended funds were rebudgeted as part of the 2008-2009 Adopted Capital Budget.
- The Federal Pavement Maintenance project funds street resurfacing on selected qualifying arterial streets in the City to meet State and federal requirements. In order to take advantage of more favorable bidding, this project combines several smaller resurfacing projects into one larger project. Work in the amount of \$10.6 million was completed on this project in 2007-2008, and the remainder of the unexpended funds was rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget.
- The TCRP Payback – Pavement Maintenance project funds pavement maintenance for the City such as surface sealing and street resurfacing. Funds that were not encumbered in 2007-2008 have been rebudgeted as part of the 2008-2009 Adopted Capital Budget to continue to support street sealing and resurfacing work.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

- The BART Project Management project provides funding for regional coordination of the BART to San José project. The unexpended funds have been rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget, and are being recommended for rebudget as part of this document to fund agreements with other jurisdictions.
- The Traffic Calming appropriation is an annual program funding various projects in coordination with neighborhoods and Council Offices. The remaining balance has been rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget, and is being recommended for rebudget as part of this document to continue work on these projects.
- The Pavement Maintenance project funds street maintenance for arterial and residential streets at various locations throughout the City. Work in the amount of \$8.2 million was completed on this project in 2007-2008, and the remainder of the funds is recommended for rebudget into 2008-2009 as part of this document to support the completion of the slurry seal and street resurfacing project at various City street locations as identified by the Pavement Management System.
- The Traffic Safety Data Collection project collects traffic data and prepares engineering studies related to traffic collisions, speed surveys, and traffic volumes. The project generated savings due to vacancies, delays in procuring consultant services, and delays in negotiations for a purchase of equipment. These unexpended funds are being recommended for rebudget as part of this document to support these activities.

The remaining variance (\$2.8 million) reflects unexpended funds in a number of projects with balances of less than \$300,000.

The 2007-2008 ending fund balance is \$7.0 million lower than the estimated fund balance of \$16.6 million used in the development of the 2008-2009 Adopted Capital Budget. This variance reflects a combination of higher than estimated expenditures (\$441,000) and lower than estimated revenues (\$6.6 million). Additional revenue and expenditure rebudgets and several augmentations are recommended in this budget which will have a net positive impact to the ending fund balance by \$10.7 million, bringing the estimate above budgeted levels by \$3.7 million.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Emma Prusch Fund

The Emma Prusch Fund accounts for the sale or rental of any portion of the property at Emma Prusch Memorial Park. All revenue received in this fund are dedicated to capital improvements and maintenance of Emma Prusch Memorial Park.

Emma Prusch Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 80	\$ 74	\$ (6)	(7.5%)
<i>Expenditure</i>	207	74	133	64.3%
<i>Fund Balance (est.)</i>	264 *	255	(9)	(3.4%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance of \$6,000 reflects lower than anticipated lease revenue.

The positive expenditure variance of \$133,000 reflects unexpended project funds. Projects with significant variances include the following:

- The Emma Prusch Park Service Yard Fixtures, Furnishings and Equipment (FF&E) project had an expenditure variance of \$94,000 due to project delays related to location and feasibility issues. Once the project scope is finalized and construction begins (anticipated to occur spring 2009), FF&E needs for the facility will be evaluated.
- The LeFevre House Improvements project had an expenditure variance of \$22,000 due to ongoing issues between the City and the project's contractor. The project was completed in May 2007, however funding is still needed for post-construction needs (including re-painting the LeFevre House and the Carriage Barn).

The majority of unexpended project funds have been rebudgeted to 2008-2009 to ensure adequate funding to complete the projects. These savings were anticipated and rebudgeted to 2008-2009 in the Adopted Capital Budget, with one over-expended amount recommended to be reduced as part of this document.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Emma Prusch Fund (Cont'd.)

The 2008-2009 ending fund balance is \$9,000 lower than the estimated fund balance used in the development of the 2008-2009 Adopted Capital Budget. This variance reflects a combination of lower than estimated lease revenues (\$6,000) and higher than anticipated project expenditures (\$3,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Hayes Mansion Phase III Bond Fund

The Hayes Mansion Phase III Bond Fund accounts for the financing and the construction costs of the Phase III expansion at the Hayes Conference Center.

Hayes Mansion Phase III Bond Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 0	\$ 62	\$ 62	N/A
<i>Expenditure</i>	39	151	(112)	(287.2%)
<i>Fund Balance (est.)</i>	276 *	170	(106)	(38.4%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance of \$62,000 is solely due to interest earnings from bond proceeds. There was no revenue estimated in this fund, as this fund was intended to be closed out and all remaining fund balance was to be transferred to the Community Facilities Revenue Fund for future debt service payments.

The negative expenditure variance of \$112,000 is primarily due to an unanticipated transfer (\$135,000) from this fund to the General Fund. It was originally anticipated that the remaining balance in this fund would be transferred to the Community Facilities Revenue Fund in 2008-2009, where the debt service on the Hayes Mansion bonds are paid. However, in June 2008, the City's bond counsel advised that this portion of the balance could not be used to directly refund the bonds or pay debt service; however the balance could be transferred from the trustee to the City for deposit into the General Fund where it could be subsequently transferred to the Community Facilities Revenue Fund. As a result of this unanticipated transfer, the Developer Payment-Tax Exempt/Tax Proceeds appropriation had insufficient available funds to reflect actual expenditures, causing the appropriation level to be exceeded by \$135,000. Therefore, on September 30, 2008, City Council will consider a retroactive increase to this appropriation. This overage is partially offset by savings (\$23,000) in the Public Art – Taxable Proceeds appropriation. Included in this report is a recommendation to rebudget \$10,000 in this allocation.

The 2007-2008 ending fund balance is lower than estimated due to higher than estimated expenditures partially offset by higher than estimated revenues. As a result of the lower than anticipated fund balance (\$106,000) and the rebudget described above (\$10,000), the 2008-2009 Transfer to the Community Facilities Revenue Fund is recommended to be reduced by \$116,000.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Interim City Facilities Improvements Fund

The Interim City Facilities Improvements Fund was established in 2003-2004 to account for interim improvements to City facilities that would be necessary to continue operating these facilities.

***Interim City Facilities
Improvements Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,437	\$ 0	\$ (1,437)	(100.0%)
<i>Expenditure</i>	1,437	105	1,332	92.7%
<i>Fund Balance (est.)</i>	0 *	(105)	(105)	0.0%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance is due to no commercial papers issued in 2007-2008. It had been anticipated that there would be minimal activity in this Fund and commercial paper notes in the amount of \$1.3 million was approved to be carried forward into 2008-2009 in the Adopted Capital Budget.

A negative fund balance of \$105,000 resulted due to the timing of payments for contractual expenses related to baseline repairs and improvements at old City Hall. This negative fund balance represents a delay in commercial paper reimbursements for actual expenditures (\$77,613) as well as for encumbrances (\$27,500). Because commercial paper proceeds reimburse actual expenditures rather than encumbrances, typically there is a timing difference between when the encumbrance is made, when actual expenditures are paid, and when the commercial paper notes are issued. Although actual expenditures did occur in 2007-2008, due to a delay in processing the reimbursements, commercial paper notes were not issued in time for the close of the fiscal year. It is anticipated that these reimbursements will be processed in the following months. After all reimbursements are received, it is anticipated that the fund balance will no longer be negative.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Lake Cunningham Fund

The Lake Cunningham Fund accounts for concessionaire and parking lot revenues that are dedicated to capital improvements and maintenance of Lake Cunningham Park.

Lake Cunningham Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 746	\$ 757	\$ 11	1.5%
<i>Expenditure</i>	1,434	1,144	290	20.2%
<i>Fund Balance (est.)</i>	633 *	570	(63)	(10.0%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance of \$11,000 reflects higher than anticipated parking revenue (\$52,000), partially offset by lower than anticipated lease payments (\$26,000) and interest earnings (\$15,000).

The positive expenditure variance of \$290,000 reflects unexpended project funds. Projects with significant variances include the following:

- The Lake Water Management Plan project had an expenditure variance of \$95,000 due to a delay in identifying a qualified consultant to conduct the desired study of lake conditions. A consultant has subsequently been identified and hired. Staff will meet with the consultant in October 2008 and expect to initiate the lake study shortly thereafter, with the study being completed by June 2009.
- The Lake Cunningham Public Art allocation had an expenditure variance of \$62,000 due to the Office of Economic Development and the Parks, Recreation and Neighborhood Services Department not yet finalizing a public art project for the Park. A final project concept and design implementation should occur in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Lake Cunningham Fund (Cont'd.)

- The Lake Cunningham Skate Park Fixtures, Furnishings and Equipment (FF&E) project had an expenditure variance of \$46,000 due to a continuing effort to identify appropriate equipment for successful operation of the Lake Cunningham Skate Park. To ascertain equipment needs for all operating seasons of the facility, acquisition of needed equipment and park furnishings is expected to extend through the winter. All FF&E is anticipated to be purchased by June 2009.
- The Public Works Capital Management Costs allocation had an expenditure variance of \$42,000 due to lower than anticipated project expenditures requiring Department of Public Works oversight.

The majority of unexpended project funds have been or will be rebudgeted to 2008-2009 to ensure adequate funding to complete the projects. The majority of these savings were anticipated and rebudgeted to 2008-2009 in the Adopted Capital Budget, with the remaining balance recommended for rebudget and the over-expended amounts to be reduced as part of this document.

The 2007-2008 ending fund balance is \$63,000 lower than the estimated fund balance used in the development of the 2008-2009 Adopted Capital Budget. This variance reflects a combination of higher than estimated expenditures (\$78,000), partially offset by higher than estimated revenues (\$15,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Major Collectors and Arterials Fund

The Major Collectors and Arterials Fund is for the collection of monies owed by developers for previously completed street improvements. Funds are also utilized for median island landscaping projects.

***Major Collectors
and Arterials Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 283	\$ 552	\$ 269	95.1%
<i>Expenditure</i>	664	596	68	10.2%
<i>Fund Balance (est.)</i>	1,073 *	1,244	171	15.9%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Total revenues (\$552,000) were higher than budgeted by \$269,000. The variance was due to higher than anticipated developer contributions (\$253,000) and higher than anticipated interest earnings (\$16,000). Developer contributions were higher than budgeted levels as a result of a deposit for a major public improvement plan that was not initially anticipated.

Expenditures were below budgeted levels by \$68,000 primarily due to lower than anticipated project costs in the Traffic Signals project.

The 2007-2008 ending fund balance positive variance of \$171,000 reflects the combined impact of the higher than estimated revenues from developer contributions (\$118,000) and lower than estimated expenditures (\$53,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Major Facilities Fund

The Major Facilities Fund is part of the Water Utility System Capital Program. This Fund receives revenue from a connection fee charged to developers and, according to State law, may be used only for the construction of new facilities to service future developments in the Alviso, North San Jose, Evergreen, Edenvale, and Coyote service areas.

Major Facilities Fund

(\$000s)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
<i>Revenue</i>	\$ 322	\$ 330	\$ 8	2.5%
<i>Expenditure</i>	747	682	65	8.7%
<i>Fund Balance (est.)</i>	3,023 *	3,046	23	0.8%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The minor positive revenue variance (\$8,000) is due to the higher than estimated collection of Major Facilities fees in the North San José area (\$46,000) offset by lower than estimated interest income (\$38,000).

Expenditure savings (\$65,000) are due to project savings in the Nortech Parkway East Loop Main appropriation (\$50,000) and in the Major Facilities Fee Administration appropriation (\$15,000). The Nortech Parkway East Loop Main project was deferred one year to facilitate the acceleration of the North First Street Parallel Main Phase III project. The Major Facility Fee Administration appropriation, which funds periodic reviews of the fee structure, was not used because no such review took place.

The positive fund balance variance (\$23,000) resulted from the combination of project savings (\$15,000) and slightly higher than estimated revenue (\$8,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund

On March 5, 2002, 72% of the voters in San José approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act” (Neighborhood Security Act Bond Measure). This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund projects in both the Police and Fire Departments.

Neighborhood Security Act Bond Fund Projects

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 15,622	\$ 4,454	\$ (11,168)	(71.5%)
<i>Expenditure</i>	103,464	74,534	28,930	28.0%
<i>Fund Balance (est.)</i>	29,800	30,865	1,065	3.6%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

General Obligation Bond proceeds (G.O. Bonds) and interest earnings provide the funding for projects in the Neighborhood Security Act Bond Fund. The negative revenue variance of \$11.2 million is the result of lower than budgeted bond proceeds (\$0) as no G.O. Bonds were issued in 2007-2008, due to changes in the timing of program needs, partially offset by higher than budgeted interest earnings (\$4.4 million) generated from the 2006-2007 bond proceeds.

The expenditure savings of \$28.9 million reflect unexpended project funds. During the development of the 2008-2009 Adopted Budget, \$27.8 million of savings was anticipated at the end of 2007-2008 and was rebudgeted to 2008-2009. An additional \$751,000 is recommended for rebudget as part of this document. A clean-up augmentation is also recommended to move \$42,000 from ending fund balance to the Fire Station 12 appropriation. The funding was liquidated from the original construction contract for Fire Station 12 when staff executed a credit change order. It is recommended the funding be returned to the project appropriation for final project close-out costs. Downward adjustments are recommended for the 911 Communications Dispatch Center (\$117,000), Fire Station 2 - Rebuild (\$15,000), Land Acquisition - Fire Station (\$13,000), and Public Art - Police Bond Projects (\$7,000) appropriations, because the year-end expenditure savings were insufficient to cover the rebudget amounts assumed in the development of the 2008-2009 Adopted Budget.

The 2007-2008 ending fund balance is \$1.1 million higher than the estimate used in the development of the 2009-2013 Adopted CIP, partially due to higher than estimated interest

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund (Cont'd.)

earnings (\$269,000). In addition, lower than estimated expenditures (\$776,000) also contributed to the higher ending fund balance. As previously discussed, various adjustments amounting to a net addition of \$793,000 in rebudgets and clean-up augmentations are recommended in this document. It is anticipated that sufficient bond proceeds will also be available in 2008-2009 to fund projected expenditure levels in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

North San José Traffic Impact Fee Fund

The North San José Traffic Impact Fee Fund was established to account for fees imposed to offset the impacts on traffic from new industrial and residential development within the boundaries of and subject to the North San José Area Development Policy.

***North San José
Traffic Impact Fee
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 0	\$ 2,105	\$ 2,105	N/A
<i>Expenditure</i>	0	0	0	N/A
<i>Fund Balance (est.)</i>	331 *	2,105	1,774	536.0%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Total revenues (\$2.1 million) were higher than budgeted due to revenues being collected from developers earlier than anticipated. Although this fund was established in 2007-2008, expenditures for this fund were anticipated to begin in 2008-2009.

The 2007-2008 ending fund balance positive variance of \$1.8 million reflects the combined impact of no estimated expenditures and higher than estimated revenues (\$1.8 million).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund

The Park Trust Fund accounts for a fee received from developers in-lieu of land dedicated for park and recreation development in residential areas. Monies in this Fund, including interest earnings, must be expended solely for the acquisition or improvements of parkland within the residential areas where the in-lieu fees were paid.

Park Trust Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,217	\$ 10,433	\$ 9,216	757.3%
<i>Expenditure</i>	30,569	13,029	17,540	57.4%
<i>Fund Balance (est.)</i>	77,393 *	83,628	6,235	8.1%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Under current City Council policy, in-lieu fee revenues in the Park Trust Fund are primarily recognized and budgeted in the year following the receipt of the funds, in recognition of the fact that these revenues cannot be reasonably estimated from year-to-year. As a result, there are typically large positive revenue variances in this fund each year. In 2007-2008, the positive revenue variance of \$9.2 million is the result of higher than anticipated in-lieu fees (\$4.9 million), interest earnings (\$3.0 million), and developer review and inspection fees (\$1.3 million).

The positive expenditure variance of \$17.5 million reflects unexpended project funds. Projects with significant variances include the following:

- The Newhall Neighborhood Park project had an expenditure variance of \$1.8 million due to a delay in encumbering the construction contract.
- The Seven Trees Community Center – Multi-Service project provides supplemental funding to the Parks and Recreation Bond Projects funding for this project. This allocation had an expenditure variance of \$1.2 million due to the funds being allocated before they were needed.
- The Fleming Park project had an expenditure variance of \$1.1 million due to a delay in encumbering the construction contract.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund (Cont'd.)

- The TRAIL: Coyote Creek (Highway 237 to Story Road) project had an expenditure variance of \$991,000 due to a delay in encumbering the construction contract.
- The KB Homes Reimbursement - Tuscany Hills allocation had an expenditure variance of \$945,000. The developer dedicated land to the City after paying their parkland obligation fees, therefore, this funding will be returned to the developer in 2008-2009.
- The Backesto Park Improvements project had an expenditure variance of \$887,000 due to the project being placed on hold pending additional input from the community.
- The Cypress Senior Center Renovations project had an expenditure variance of \$726,000 due to a change in the project scope to accommodate the use of decomposed granite instead of artificial turf.
- The Cahill Park Play Lot Improvements project had an expenditure variance of \$703,000 due to a delay in encumbering the construction contract.
- The Penitencia Creek Park Dog Park project had an expenditure variance of \$685,000 due to coordination issues involving a joint-use agreement with the County of Santa Clara.
- The Martin Park Expansion project had an expenditure variance of \$675,000. This project is located in a former landfill site and environmental processes relating to the closure of the landfill has taken longer than originally anticipated.
- The TRAIL: Willow Glen Spur Acquisition project had an expenditure variance of \$621,000 due to contract negotiations with the property owner taking longer than anticipated.

The majority of unexpended project funds have been or will be rebudgeted to 2008-2009 to ensure adequate funding to complete the projects. A large portion of these savings were anticipated and rebudgeted to 2008-2009 in the Adopted Capital Budget (\$66.5 million), with the remaining balance recommended for rebudget and the over-expended amounts to be reduced as part of this document (\$437,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund (Cont'd.)

The 2007-2008 ending fund balance variance of \$6.2 million is primarily the result of higher than anticipated in-lieu fees (\$3.3 million), interest earnings (\$1.2 million), developer review and inspection fees (\$1.3 million), and lower than anticipated project expenditures (\$457,000). Revenues received in 2007-2008 will be programmed into the 2009-2010 Proposed Capital Budget and this document includes recommendations to rebudget \$437,000 of expenditure savings to provide sufficient funding for projects in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parking Capital Development Fund

The Parking Capital Development Fund was established to provide funding to acquire land; design, develop, and construct parking facilities; acquire parking inventory; pay parking debt obligations; and support activities that have a direct impact on increasing parking supply development.

***Parking Capital
Development
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 5,100	\$ 5,100	\$ 0	0.0%
<i>Expenditure</i>	5,100	0	5,100	100.0%
<i>Fund Balance (est.)</i>	0 *	5,100	5,100	N/A

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Total revenues (\$5.1 million) collected matched the total amount of revenues budgeted, which resulted in no variance. Total expenditures (none) were lower than budgeted as a result of the Parking Capital Development project experiencing delays due to ongoing discussions between the City and the San José Redevelopment Agency on the land acquisition of the Greyhound site. In anticipation of this delay, the unexpended funds were rebudgeted into 2008-2009 as part of the 2008-2009 Adopted Capital Budget.

The 2007-2008 ending fund balance is \$5.1 million higher than the estimated fund balance entirely due to higher than estimated revenues.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund

On November 7, 2000, San José voters approved a bond measure totaling \$228 million to finance the construction of improvements to regional and neighborhood parks and recreational facilities over a ten-year period. The Parks and Recreation Bond Projects Fund was established to account for the expenditure of those bond proceeds.

***Parks and Recreation
Bond Projects Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 30,647	\$ 31,945	\$ 1,298	4.2%
<i>Expenditure</i>	115,026	84,309	30,717	26.7%
<i>Fund Balance (est.)</i>	59,116 *	61,116	2,000	3.4%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

General Obligation Bond proceeds (G.O. Bonds) and interest earnings are the primary sources of revenue for this Fund. The positive variance in revenue (\$1.3 million) primarily represents higher than anticipated interest earnings on bond proceeds (\$2.4 million), partially offset by lower than anticipated bond sales (\$1.1 million). The 2007-2008 bond issuance was lower than originally budgeted due to changes in the timing of program needs which required a lower funding level. The revised bond schedule was anticipated in the development of the 2008-2009 Adopted Capital Budget.

The positive expenditure variance of \$30.7 million reflects unexpended project funds. Projects with significant variances include the following:

- The Bascom Community Center – Multi-Service project had an expenditure variance of \$10.6 million due to a delay in awarding the construction contract because of protests to the low bidder. Originally scheduled for award in June 2008, the actual award did not occur until August 2008.
- The Happy Hollow Park and Zoo Renovations and Improvements project had an expenditure variance of \$9.9 million due to project delays. Due to escalating project costs, it was necessary for City staff to find additional funding for the project, and for the project to be re-scoped to bring the estimated cost in line with available project funds.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund (Cont'd.)

- The Mayfair Community Center – Satellite project had an expenditure variance of \$2.5 million due to a delay in encumbering the construction contract.
- The Almaden Community Center – Multi-Service project had an expenditure variance of \$1.3 million due to lower than estimated project management costs and unused project contingency.
- The Seven Trees Community Center – Multi-Service project had an expenditure variance of \$1.3 million due to unused project contingency and because the actual construction award was significantly lower than the amount budgeted. As construction has just started, project savings are not being realized at this time to allow funding for potential unforeseen conditions. However, when the project is completed any savings will be reallocated to other projects or placed in the contingency reserve.
- The TRAIL: Coyote Creek Trail (Tully Road to Los Lagos Golf Course) project had an expenditure variance of \$1.2 million due to project delays resulting from 1) more complex site conditions existing than were initially anticipated; 2) the planning process requiring three times the typical number of community meetings to ensure outreach to all adjacent communities; and 3) construction of the project occurring in a constrained site and requiring relocation of park improvements in order to add the trail alignment.
- The Public Art – Parks and Recreation Bond Projects produced a variance of \$1.0 million due to the delays in purchasing public art for various facilities. Public Art is tied to the progress of bond projects and delays in bond projects result in corresponding delays in public art.
- The TRAIL: Guadalupe River Reach VI (Woz Way to Willow Street) project had an expenditure variance of \$939,000. The project variance is due to more complex site conditions existing than were initially anticipated, and extensive and time consuming coordination with Caltrans, Army Corp of Engineers and Santa Clara Valley Water District prolonging the planning and design process.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund (Cont'd.)

- The Roosevelt Community Center – Multi-Service project had an expenditure variance of \$712,000. The project was re-bid in 2006-2007 since the initial construction bids were significantly higher than the project budget. This resulted in a delay to construction management and inspection needs in 2007-2008.

The majority of unexpended project funds have been or will be rebudgeted to 2008-2009 to ensure adequate funding to complete the projects. A large portion of these savings were anticipated and rebudgeted to 2008-2009 in the Adopted Capital Budget (\$53.8 million), with the remaining balance recommended for rebudget and the over-expended amounts to be reduced as part of this document (\$135,000).

The 2007-2008 ending fund balance is \$2.0 million higher than the estimate used in the development of the 2008-2009 Adopted Capital Budget primarily due to higher than anticipated interest earnings (\$890,000) and lower than anticipated project expenditures (\$1.1 million). The unallocated fund balance will be preserved in the Parks and Recreation Bond Projects Contingency Reserve for future project needs.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Residential Construction Tax Fund

The Residential Construction Tax Fund accounts for taxes imposed upon the construction of single family dwelling units or mobile home lots in the City. The tax is collected and placed in the Residential Construction Tax Contribution Fund and is used to reimburse developers who constructed that portion of an arterial street which is wider than that which is normally required in connection with residential development.

***Residential
Construction Tax
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 256	\$ 118	\$ (138)	(53.9%)
<i>Expenditure</i>	1,009	117	892	88.4%
<i>Fund Balance (est.)</i>	1,315 *	1,339	24	1.8%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance of \$138,000 is the result of lower than anticipated Residential Construction Tax receipts.

The positive expenditure variance primarily reflects savings in the Reimbursements to Developers for Landscaping (\$564,000), Reimbursement to Developers for Center Strip Paving (\$273,000), and Street Improvements for New Developments (\$54,000) appropriations. Savings associated with both Reimbursements to Developers for Landscaping and Reimbursements to Developers for Center Strip Paving were anticipated and rebudgeted in the 2008-2009 Adopted Capital Budget.

The 2007-2008 positive fund balance variance of \$24,000 is the result of lower than estimated expenditures (\$6,000) and higher than estimated revenues (\$18,000). A downward adjustment to the Reimbursements to Developers for Center Strip Paving appropriation is recommended in this report based on actual expenditures. This project did not meet sufficient year-end savings to cover the original rebudget amount assumed in the 2008-2009 Adopted Capital Budget.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund

The San José/Santa Clara Treatment Plant Capital Fund accounts for the construction of improvements and the purchase of equipment for the Water Pollution Control Plant (WPCP).

***San José/Santa Clara
Treatment Plant
Capital Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 49,874	\$ 40,230	\$ (9,644)	(19.3%)
<i>Expenditure</i>	92,974	66,944	26,030	28.0%
<i>Fund Balance (est.)</i>	70,028 *	60,039	(9,989)	(14.3%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance (\$9.7 million) primarily reflects the lower than budgeted contributions from tributary agencies for WPCP Projects (\$5.1 million), interest earnings (\$3.6 million), and Contributions from the City of Santa Clara (\$2.9 million), partially offset by higher than expected United States Bureau of Reclamation (USBR) Grant revenue (\$970,000) and other miscellaneous operating revenue (\$962,000). Contributions from Santa Clara and tributary agencies reflect reimbursements of actual project expenses. The negative variance is more than offset by expenditure savings discussed below.

Project deferrals and expenditure savings resulted in a \$26.0 million positive variance in budgeted program expenditures. A portion of these savings (\$20.6 million) was anticipated and rebudgeted as part of the 2008-2009 Adopted Capital Budget. Savings in the Revised South Bay Action Plan – South Bay Water Recycling (SBWR) Extension (\$2.5 million) are recommended for rebudget in 2008-2009 as part of this document. The following is a list of projects that had an unexpended balance exceeding \$500,000:

	(\$000s)
Plant Infrastructure Improvements	\$ 7,974
Digester Rehabilitation	6,600
Revised South Bay Action Plan - SBWR Extension	2,505
Equipment Replacement	2,306
Plant Electrical Reliability	2,130
Alternative Disinfection	1,373
WPCP Reliability Improvements	1,182
Digester Gas Line Replacement	1,100
Total	\$ 25,170

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund (Cont'd.)

The following is an explanation of significant project variances:

- **Plant Infrastructure Improvements** – This project provides for improvements to, rehabilitation of, or replacement of existing Plant infrastructure and fixed works; process facilities; buildings, structures and supporting facilities; piping and auxiliaries; instrumentation; and electrical generation, distribution and control systems. Project savings of \$6.8 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. The remaining project savings of \$1.1 million are not needed and are recommended to fall to fund balance for other uses. These savings included lower than expected construction costs on projects such as East Primary Concrete Repair and M3/M4 (\$500,000), unused funds in implementation of the Records Drawing project (\$400,000), and cost-saving process improvements in the Bet Bottom Restoration (\$200,000).
- **Digester Rehabilitation** – This project is currently in the study and design phase. Savings of \$6.6 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget for the continual rehabilitation of digester gas tanks.
- **Revised South Bay Action Plan – SBWR Extension** – This project includes construction and extensions to the existing recycled water distribution system. The project savings (\$2.5 million) are recommended for rebudget as part of the 2007-2008 Annual Report to fund the recycled water line extension to the Mineta San José International Airport.
- **Equipment Replacement** – This ongoing appropriation funds the replacement and rehabilitation of Water Pollution Control Plant equipment. Project savings of \$2.2 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. An additional savings of \$76,000, which represents savings on the price of equipment and the related installation costs, is not needed and will be available for other uses.
- **Plant Electrical Reliability** – Based on a study completed in 2004, this multi-phase project will replace electrical fixtures in the Water Pollution Control Plant to enhance the overall safety and reliability of the plant electrical systems. This project will address immediate safety needs, as well as provide for future reliability needs. Study for this project began in 2003, and completion is expected in 2015. Project savings of \$2.1 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund (Cont'd.)

- Alternative Disinfection – This project began in 2004 and has an expected completion date in 2009. To fund the continuation of project activities, savings of \$800,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget.
- WPCP Reliability Improvements – This project was completed in October 2007, ten months ahead of schedule. Project savings of \$577,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget to fund project close-out costs. The remaining savings of \$600,000 are not needed and are available for other uses. These savings were the result of an expedited construction schedule, which achieved substantial completion of this project earlier than anticipated.
- Digester Gas Line Replacement – This project began in 2007 and has an expected completion date in 2012. This project will improve the safety and reliability of the digester gas lines by replacing the main lines that have deteriorated and are leaking at the pipe joints. Project savings of \$1.1 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget to fund the continuation of construction activities.

The remaining \$900,000 variance involves a number of projects with savings of less than \$500,000.

The San José/Santa Clara Treatment Plant Capital Fund ended the year \$10.0 million below the estimated fund balance primarily due to lower than estimated revenue (\$7.0 million), and higher than expected expenditures (\$3.0 million). The higher than estimated expenditures were entirely due to a correction to an encumbrance liquidation in the Revised South Bay Action Plan – SBWR Extension (\$6.6 million). This was partially offset by lower than estimated expenditures in Plant Infrastructure Improvements (\$1.6 million), WPCP Reliability Improvements (\$799,000), the Alternative Disinfection Study (\$574,000), and a number of projects in which the estimated savings were less than 300,000. Sufficient ending fund balance is available in 2008-2009 to offset the negative fund balance variance. A reprioritization of capital projects and a reevaluation of the amount of revenues transferred into this fund will need to occur during the development of the 2010-2014 Proposed Capital Improvement Program.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund

The Sanitary Sewer fees are connection fees charged to new development to access the City's sanitary sewer system. The use of these funds is restricted to the construction and reconstruction of the system.

Sanitary Sewer Connection Fee Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,554	\$ 3,295	\$ 1,741	112.0%
<i>Expenditure</i>	23,798	7,257	16,541	69.5%
<i>Fund Balance (est.)</i>	16,826 *	19,009	2,183	13.0%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance of \$1.7 million reflected higher than anticipated Joint Participation revenue (\$2.0 million), and interest from connection fees (\$94,000), partially offset by lower than estimated connection fee revenues (\$309,000) and operating revenues (\$24,000). The variance in Joint Participation revenue occurred because a portion of the revenue collected for 2006-2007 was not realized until 2007-2008. The shortfall in connection fee revenue was the result of slowing construction development.

The \$16.5 million positive expenditure variance was primarily attributed to the continuation of projects into 2008-2009. Of the \$16.5 million, \$14.0 million was rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional rebudgets of \$1.5 million are recommended in this report.

The following is a list of major unexpended projects:

	<u>(\$000s)</u>
Edenvale Sanitary Sewer Supplement Phase VA & VB	\$ 8,066
Miscellaneous Rehabilitation Projects	2,717
Inflow and Infiltration Reduction	2,344
Flow Monitoring Program (Master Planning)	1,830
Miscellaneous Projects	755
Alum Rock Avenue Sanitary Sewer Rehabilitation	<u>501</u>
Total	\$ 16,213

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund (Cont'd.)

The following is an explanation of project variances:

- Edenvale Sanitary Sewer Supplement, Phase VA & VB – Project savings of \$8.0 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional project savings of \$66,000, intended for staff costs and consultant services, were the result of a delays in updating the consultant agreement. These savings are recommended for rebudget as part of the 2007-2008 Annual Report, to cover the cost of final design and project award that is scheduled to occur in 2008-2009.
- Miscellaneous Rehabilitation Projects – Project savings of \$2.0 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional project savings of \$717,000 are recommended for rebudget as part of the 2007-2008 Annual Report to cover construction costs for the Union/Almaden Oak Sanitary Sewer Rehabilitation project.
- Inflow and Infiltration Reduction – Project savings of \$2.0 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional project savings of \$343,000 are recommended for rebudget as part of the 2007-2008 Annual Report for ongoing sanitary sewer planning in East and West San José.
- Flow Monitoring Program (Master Planning) – This is an ongoing Master Planning program. Project savings of \$1.6 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional project savings of \$210,000, which were the result of consultant delays, are being recommended for rebudget as part of the 2007-2008 Annual Report for ongoing sanitary sewer planning in East and West San José.
- Miscellaneous Projects – Project savings of \$500,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional project savings of \$254,000 are recommended for rebudget as part of the 2007-2008 Annual Report to cover the cost of construction for the Union/Almaden Oak Sanitary Sewer Rehabilitation project.
- Alum Rock Avenue Sanitary Sewer Rehabilitation – Project savings of \$50,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget. Additional project savings of \$100,000 are being recommended for rebudget as part of the 2007-2008 Annual Report for project close-out and post-construction costs.

The Sanitary Sewer Connection Fee Fund ended the year \$2.2 million above the estimated fund balance due to higher than estimated revenue (\$155,000) and lower than estimated expenditures (\$2.0 million).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Services for Redevelopment Capital Projects Fund

The Services for Redevelopment Capital Projects Fund accounts for funds paid directly by the San Jose Redevelopment Agency for construction and acquisition of public improvements on behalf of the Agency. To the extent construction project expenditures are not fully expended, the savings are returned to the San Jose Redevelopment Agency.

*Services for
Redevelopment Capital
Projects Fund*

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 6,522	\$ 10,145	\$ 3,623	55.6%
<i>Expenditure</i>	16,431	12,497	3,934	23.9%
<i>Fund Balance (est.)</i>	0 *	8,074	8,074	N/A

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Revenue collections were 55.6% or \$3.6 million above the budgeted revenue estimates. The revenue variance is mainly due to \$3.3 million in collections that were received in 2007-2008 for projects to be completed in 2008-2009. All of this revenue was appropriated by the City Council in 2008-2009 on August 12, 2008.

The positive expenditure variance of \$3.9 million reflects unexpended project funds. The following is a list of the major unexpended projects (\$000's):

Sanitary Sewer Improvements Phase I	\$ 454
North San José Transportation Infrastructure	292
Jeanne-Forestdale SNI Housing Rehabilitation	250
Demonstration-Phase I	
Julian and Saint James Street Phase 1B	219
Ann Darling Drive Improvement	185
Kingman and Leigh Avenues, San Antonio St. and Scharff Ave. Traffic Signal 1	177
SNI Multi-Family Home Improvement	175
Traffic Calming Improvements-Gateway East #8	138
Pedestrian Safety Improvements	127
Public Art-Keystone Place Housing	127
Coyote Creek Trail Project	<u>122</u>
Total	\$ 2,266

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Services for Redevelopment Capital Projects Fund (Cont'd.)

Anticipated expenditure savings of \$3.0 million were rebudgeted to 2008-2009 as part of the 2008-2009 Adopted Capital Budget to fund continuing project costs. Additional project savings in the amount of \$796,000 are recommended for rebudget in this document primarily for projects including: Jeanne-Forestdale SNI Housing Rehabilitation Demonstration-Phase I (\$250,000), SNI Multi-Family Home Improvement (\$175,000), Pedestrian Safety Improvements (\$127,000), Public Art-Keystone Place Housing (\$127,000), and Gateway East Sanitary Sewer Improvements Phase II (\$104,000). These savings were offset by projects which did not meet sufficient savings at year-end and include the San Antonio Avenue Traffic Signal Modification (\$274,000) and Christmas in the Park Exhibits (\$79,000) projects.

The 2007-2008 ending fund balance ended the year \$8.1 million above the level estimated in the 2008-2009 Adopted Capital Budget. This reflects the fact that at the time the 2008-2009 Adopted Capital Budget was developed, full expenditure of all capital project funding was assumed. The ending fund balance variance reflects project savings resulting from the continuation of projects into 2008-2009 and additional funds transferred from the San Jose Redevelopment Agency after the 2008-2009 Adopted Capital Budget was developed. These additional funds, in practice, are budgeted at the start of each fiscal year.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund

The Sewer Service and Use Charge Capital Improvement Fund receives funding from the Sewer Service and Use Charge Operating Fund. These funds are used for the reconstruction of the Sanitary Sewer System.

***Sewer Service and
Use Charge Capital
Improvement Fund***

(\$000s)					Percent
	Budget	Actual	Variance	Variance	
<i>Revenue</i>	\$ 15,321	\$ 16,332	\$ 1,011		6.6%
<i>Expenditure</i>	44,019	17,504	26,515		60.2%
<i>Fund Balance (est.)</i>	41,633 *	44,031	2,398		5.8%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance of \$1.0 million is primarily due to higher than budgeted interest earnings (\$959,000) and Miscellaneous Revenue (\$52,000). The Miscellaneous Revenue represents a reimbursement to the City from a developer for the median improvements constructed as part of the 60" Brick Interceptor Replacement, Phase IB project.

The \$26.5 million positive variance in expenditures is primarily attributed to lower than estimated project expenditures. Of this amount, \$20.8 million of project savings were anticipated and rebudgeted in the 2008-2009 Adopted Capital Budget. A portion of the remaining expenditure savings (\$2.1 million) is recommended for rebudget as part of this Annual Report. The following is a list of projects that had an unexpended balance exceeding \$300,000:

	(\$000s)
Edenvale Sanitary Sewer Supplement	\$ 12,548
Phases VA and VB	
Inflow and Infiltration Reduction	3,919
Miscellaneous Projects	1,996
60" Brick Interceptor, Phase 1B	1,873
Union/Almaden Oak	1,424
Sanitary Sewer Rehabilitation	
Miscellaneous Rehabilitation Projects	1,355
84" RCP Interceptor	1,346
Phases VB, VIB, VIA and VIIA	
Willow Glen Sanitary Sewer Rehabilitation	977
Flow Monitoring Program - Master	
Planning	<u>377</u>
Total	\$ 25,815

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

The following is an explanation of project variances:

- Edenvale Sanitary Sewer Supplement, Phase VA and VB – Construction on this project is scheduled to begin in March 2009. Project savings of \$12.2 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. A rebudget of \$348,000 is requested as part of the Annual Report.
- Inflow and Infiltration Reduction – Funding for this project is designated for responses to infiltration and inflow reduction into the sewer system. Project savings of \$3.0 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. The remaining balance of \$919,000 is recommended for rebudget in this document to fund the Downer-Canoas project within this appropriation. The Downer-Canoas project was delayed into 2008-2009 because additional research was required to determine the scope of the project.
- Miscellaneous Projects – This appropriation funds miscellaneous or urgent sewer projects that are unforeseen during the capital budgeting process. Because planned sanitary sewer projects were given higher priority during 2007-2008, various minor projects have been deferred to 2008-2009. Project savings of \$1.2 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget. A rebudget of \$796,000 is recommended as part of this document to fund ongoing Sanitary program management, minor Sanitary Sewer projects, and sewer extensions related to Traffic program projects.
- 60" Brick Interceptor, Phase 1B – Phase 1B was awarded in June 2004. Anticipated project savings of \$1.9 million were allowed to fall to fund balance for other uses in the 2008-2009 Adopted Capital Budget.
- Union/Almaden Oak Sanitary Sewer Rehabilitation – This project, which began in August 2007, involves the rehabilitation of 2,480 feet of sanitary sewer along with the removal and replacement of manholes. Project savings of \$1.4 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

- Miscellaneous Rehabilitation Projects – This appropriation covers the cost of rehabilitating sanitary sewers that exhibit structural deterioration, corrosion, sagging, joint separation, cracking, blockage, and stoppage. This appropriation also includes miscellaneous sewer rehabilitations projects as identified by the Department of Transportation's maintenance and repair records, flow monitoring analysis, consultant studies, and field observations. Project savings of \$1.4 million were rebudgeted as part of the 2008-2009 Adopted Capital Budget.
- 84" RCP Interceptor, Phase VB and VIB – Phase VIB was awarded in June 2005. Project savings of \$300,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget. A rebudget of \$46,000 is recommended in this document for remaining construction and contingency costs.
- Willow Glen Sanitary Sewer Rehabilitation – This project was awarded in July 2008 and construction began in September 2008. Project savings of \$950,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget. A rebudget of \$27,000 is recommended in this document for remaining construction costs.
- Flow Monitoring Program-Master Planning – Funding for this project is designated for master planning and analysis of the collection system. Project savings of \$377,000 were rebudgeted as part of the 2008-2009 Adopted Capital Budget.

The remaining \$700,000 variance involves a number of projects with less than \$300,000 in unexpended funds, and is largely attributed to delays in project awards.

The 2007-2008 ending fund balance variance (\$2.4 million) reflects the combination of higher than expected revenues and lower than estimated expenditures. As previously described, a portion of the expenditure savings is being rebudgeted to complete projects in 2008-2009.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Storm Drainage Fee Fund

The Storm Drainage Fees are charged to access the City's Storm Drainage System. The use of these funds is restricted to the construction and repair of the storm drainage system.

***Storm Drainage
Fee Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 308	\$ 255	\$ (53)	(17.2%)
<i>Expenditure</i>	494	461	33	6.7%
<i>Fund Balance (est.)</i>	136 *	142	6	4.4%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Revenues ended the year below budgeted levels. The revenue variance of \$53,000 reflects lower than budgeted Storm Drainage Fees (\$57,000) offset by higher earnings for joint participation projects (\$4,000).

Expenditure savings of \$33,000 were due primarily to savings in the Public Works Capital Management Cost appropriation (\$15,000) and savings in the Flow Monitoring System project (\$9,000). Savings in the Flow Monitoring System appropriation reflect the decision to fund flow monitoring activity in the ongoing Preliminary Engineering appropriation beginning in 2008-2009.

The 2007-2008 fund balance is only \$6,000 higher than the estimate used in the development of the 2008-2009 Adopted Capital Budget. This variance is due to lower than expected revenue (\$24,000), offset by lower than expected expenditures (\$30,000).

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Storm Sewer Capital Fund

The Storm Sewer Capital Fund receives revenue from the Storm Sewer Operating Fund to account for capital expenditures.

***Storm Sewer
Capital Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,025	\$ 2,969	\$ (56)	(1.9%)
<i>Expenditure</i>	5,851	4,193	1,658	28.3%
<i>Fund Balance (est.)</i>	1,044 *	1,676	632	60.5%

** Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The negative revenue variance of \$56,000 is due to lower than budgeted interest income (\$81,000) offset by higher than expected transfers from the Storm Sewer Operating Fund (\$25,000).

The positive expenditure variance of \$1.7 million reflects a deferral of project timelines into 2008-2009. Some of these savings (\$948,000) were assumed and rebudgeted as part of the 2008-2009 Adopted Capital Budget. The major projects with variances include: Alviso Storm Rehabilitation (\$732,000), Storm Pump Station Rehabilitation and Replacement (\$376,000), Minor Neighborhood Storm Drain Improvements (\$191,000), Chateau Drive Storm Drain Improvement (\$76,000), Storm Drainage Improvements – Special Corridors (\$67,000), and Albany-Kiely Storm Drainage Improvement (\$53,000).

Two projects with significant project savings are recommended for rebudget as part of the Annual Report and include: Alviso Storm Rehabilitation (\$597,000), and Albany – Kiely Storm Drain Improvement, Phase III/IV & V (\$53,000). Four smaller items, totaling \$45,000, are also recommended for rebudget in this document.

The 2007-2008 ending fund balance ended the year \$632,000 higher than the estimated level. The variance is attributed mainly to higher than estimated expenditure savings. As described above, \$695,000 of the expenditure savings is recommended for rebudget as part of this report.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Underground Utility Fund

The Underground Utility Program implements City General Plan Goals and Policies, which state that the City should encourage the undergrounding of existing overhead utilities. The fund is used to establish Rule 20B Underground Utility Districts. These Districts combine several smaller undergrounding projects into one large project so as to minimize the piecemeal undergrounding of utility facilities throughout the City. This fund is also used to administer the Rule 20A Program. Through Rule 20A, the California Public Utilities Commission requires Pacific Gas and Electric (PG&E) to annually set aside funds to finance the undergrounding of overhead facilities located on public streets within the City.

***Underground
Utility Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 900	\$ 691	\$ (209)	(23.2%)
<i>Expenditure</i>	1,524	647	877	57.5%
<i>Fund Balance (est.)</i>	3,021 *	3,560	539	17.8%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance of \$209,000 is the result of lower than anticipated developer in-lieu fees as commercial/industrial development has been weaker than residential development in recent years. Based on the fact that commercial/industrial projects typically trigger higher “intensity of use” (e.g. traffic) than residential projects and residential projects are usually not located on General Plan streets designated for future under grounding, revenue has been significantly less than anticipated. Staff will continue to assess the impact this situation will have on the project delivery schedule for the Underground Utility Program.

The positive expenditure variance of \$877,000 primarily reflects savings in the Underground Utility Program appropriation (\$814,000) as a result of changes in project delivery schedules due to utility company resource issues. Unexpended funds in the amount of \$859,000 for both the Underground Utility Program and the PG&E/Private Electrical Service Panel Conversion are recommended to be rebudgeted to 2008-2009.

The 2007-2008 ending fund balance ended the year \$539,000 above the estimated level and reflects the combination of lower than anticipated developer in-lieu fees and lower than

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Underground Utility Fund (Cont'd.)

estimated expenditures. As mentioned above, this document includes a recommendation to rebudget expenditure savings for PG&E/Private Electrical Service Panel Conversion. This project is anticipated to be completed in 2008-2009 and grant revenue will be received at that time.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Water Utility Capital Fund

The Water Utility Capital Fund supports the Municipal Water System capital program, and is funded primarily through transfers from the Consolidated Water Utility Fund, fees paid by developers for direct services, and interest. Monies in this fund are expended on the acquisition, construction, and installation of water system capital improvements in the North San José, Evergreen, Alviso, Edenvale, and Coyote areas.

***Water Utility Capital
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,629	\$ 2,929	\$ (700)	(19.3%)
<i>Expenditure</i>	6,021	4,576	1,445	24.0%
<i>Fund Balance (est.)</i>	3,103 *	3,258	155	5.0%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance (\$700,000) resulted from lower than estimated collections in Service Connection Fees (\$322,000), Advanced System Design Fees (\$311,000), and Meter Installation Fees (\$140,000). These shortfalls are partially offset by higher than budgeted interest earnings (\$73,000). Service Connection Fee, Advanced System Design Fee, and Meter Installation Fee revenues primarily recover the actual cost to install new services.

There were a total of \$1.4 million in expenditure savings, primarily made up of several larger projects, including: Advance System Design (\$179,000), Forestwood Drive Main Replacement (\$178,000), Security Improvements (\$174,000), North Coyote Valley Water System (\$170,000), Service Installations (\$145,000), Norwood Pump Station Replacement (\$136,000), Infrastructure Improvements (\$99,000), Meter Installations (\$97,000), Water Valve Rehabilitation (\$82,000), and Villa Vista Reservoir Rehabilitation (\$69,000). Savings in the Villa Vista and Forestwood Drive projects were due to lower than expected costs. Savings in the Meter Installation and Advance System Design appropriations occurred because of a slow-down in development. Savings in the North Coyote Valley Water System appropriation were due to the deferral of construction into 2008-2009. A portion of these project savings (\$311,000) were anticipated at the end of 2007-2008 and rebudgeted to 2008-2009 as part of the Adopted Capital Budget. The Infrastructure Improvements project savings (\$95,000) is recommended for rebudget as part of this document.

The positive variance in fund balance (\$155,000) was due to project savings, partially offset by lower than estimated revenues as described above.